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ETF bandwagon is picking up speed

Low fees, good performance are making them popular, so more investment firms are jumping on board

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More one-stop shopping is coming to the booming world of exchange-traded funds. With low fees and performance that often beat most active managers, ETFs have exploded in popularity. And that is spurring more Canadian investment firms to offer different kinds of packages of these funds to investors.

Toronto-based **JovFunds Management Inc.** is the latest player to enter the fray, with the launch of the first Canadian prospectus-based mutual fund investing only in North American-listed ETFs.

Claymore Investments Inc. runs two global ETFs that invest in other ETFs sold by Claymore and Barclays Global Investors in Canada.

The Global Portfolio Solution (GPS) Fund LP run by Larry Berman, portfolio manager for Toronto-based **ETF Capital Management**, invests only in ETFs, and is aimed at high-net-worth or sophisticated investors.

"A lot of people believe and are convinced of the merits of ETFs but with their proliferation it's becoming more and more complicated," said Adam Felesky, chief executive officer of JovFunds. "There are some individuals and advisers looking for a professional person to make the allocation decision in what exchange-traded fund they should be using."

ETFs, which are like a mutual fund but trade like a stock, range from investments that mimic stock or bond indexes to funds that give exposure to sectors such as agriculture, energy and precious metals.

The Jov Fiera Tactical Asset Allocation portfolios can invest in the Horizons BetaPro ETFs – affiliated with JovFunds - or any sold by rivals. Montreal-based partner Fiera Capital Inc. determines what percentage will be invested in cash, or stock-and-bond ETFs.

JovFunds has launched three funds with different risk tolerances. They include Jov Fiera Growth Tactical Portfolio, Jov Fiera Balanced Tactical Portfolio and Jov Fiera Conservative Tactical Portfolio.

The target audience is mutual fund dealers who can't buy ETFs because they are not licensed to buy securities, Mr. Felesky said. "This is a way for them to deliver the benefits of exchange-traded funds via a mutual fund."

The 1.95-per-cent management fee of the Jov Fiera portfolios include 1.25 basis points for an annual trailer fee for advisers. The all-in fee charged to investors - including the management expense ratio (MER) plus fees charged by the underlying ETF investments - should not be higher than 2.25 per cent, he estimated.

While the fees would be comparable to the ones charged by actively managed funds, he said the "value added" comes from Fiera Capital, which has built its reputation on its asset allocation strategy, and the fact that the index-linked funds usually beat most active managers.

But Dan Hallett, a Windsor, Ont.-based independent fund analyst, said there is still risk to the Jov Fiera portfolios because a successful tactical asset allocation strategy depends on a manager getting the "top-down, macro calls right." That strategy "is going to appeal to some advisers and others it won't," he said. "A lot of advisers still remember the pain they suffered at the hands of other tactical managers."

Mr. Felesky said the Jov Fiera portfolios are jumping fully into ETFs unlike former investments such as Spectrum Tactonics global equity mutual fund launched in 2001. That fund, which was 20 per cent invested in Canadian stocks and 80 per cent in foreign ETFs, no longer exists. After Spectrum Investment Management Ltd. was acquired by CI Financial Income Fund, that fund was merged into CI's Synergy fund family with a different mandate.

Nearly a year ago, Toronto-based Claymore Investments launched two ETFs - Claymore Global Balanced Income and the Claymore Balanced Growth ETF - that invest in other ETFs.

These portfolios are rebalanced quarterly, but there won't be major changes in asset allocation. The funds have a MER of 0.7 per cent if bought directly by investors, and 1.7 per cent if bought through an adviser, who can get an annual trailer fee of 1 per cent.

Claymore CEO Som Seif said he expects other mutual fund companies to follow JovFunds into launching funds that invest in ETFs, but he doesn't see these products as competition for his firm's business. "It's competition for the general wrap mutual funds" that are actively managed like the Franklin Templeton Quotential or AGF Elements programs, he said. "It's a way to go after managed portfolio money."